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Pay-As-You-Go Rules in the Federal Budget Process

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The pay-as-you-go (PAYGO) rules in the federal budget process require that new direct spending and revenue legislation be deficit neutral. The net effect of all such legislation enacted during a session must not cause a net increase in the budget deficit (or a net decrease in the budget surplus). If direct spending or revenue legislation causes an increase in the deficit, it must be offset by an equivalent amount of direct spending reductions, revenue increases, or a combination of both.

The Budget Enforcement Act (BEA) of 1990 (title XIII of P.L. 101-508) established the PAYGO procedures for the purpose of preserving the deficit reduction achieved in legislation of that year. The PAYGO rules are intended to hold Congress and the President accountable for any projected increase in the deficit due to legislative action, but not for the actual amount of the deficit which could be affected by factors outside their immediate control, such as economic or demographic changes. The 1990 BEA also created separate statutory limits on discretionary spending funded through the annual appropriations process. For more information on the discretionary spending limits, see CRS Report RS20008, *Discretionary Spending Limits*.

The PAYGO process is not tied to any specific level for the deficit (or surplus). Even with a budget surplus, the PAYGO process is applicable to any legislation affecting direct spending or revenues. For more on the applicability of this process under a budget surplus, see CRS Report 98-97, *The Budget Enforcement Act: Fact Sheet on Its Operation under a Budget Surplus*.

Initially, the 1990 BEA applied PAYGO rules to new direct spending and revenue legislation enacted through FY1995. In 1993, Congress and the President extended these rules to new legislation enacted through FY1998. Most recently, the PAYGO rules were extended by the 1997 Budget Enforcement Act (title X of P.L. 105-33) to apply to legislation enacted through FY2002.

Enforcing PAYGO Rules

PAYGO rules are enforced primarily by sequestration—an automatic mechanism whereby budgetary resources are canceled by the amount of any violation. In addition, the

Senate has established a point of order, effective through FY2002, that augments the statutory PAYGO rules (discussed below).

The sequestration process was established by the Balanced Budget and Emergency Deficit Control Act of 1985 (title II of P.L. 99-177), commonly referred to as Gramm-Rudman-Hollings, and it was applied to the enforcement of PAYGO rules by the 1990 BEA. A sequestration is triggered automatically when the net effect of new direct spending or revenue legislation enacted in the current and immediately prior session of Congress causes an increase in the deficit (or a reduction in the surplus). If the Office of Management and Budget (OMB) director determines in the final sequestration report that a sequestration is necessary, the President is required to issue a sequestration order reducing most, but not all, nonexempt direct spending programs by a uniform percentage offsetting the amount of the net deficit increase. Certain exceptions exist limiting the percentage amount of any reduction for some programs, such as Medicare.

The BEA requires OMB and the Congressional Budget Office to issue sequestration reports advising Congress and the President of the effect of new direct spending and revenue legislation on the deficit. OMB must provide Congress with an estimate of the net deficit effect of new direct spending and revenue legislation within seven days after its enactment. In addition, OMB is required to maintain a PAYGO scorecard keeping track of the cumulative impact of all enacted legislation. However, the only report that can automatically trigger a PAYGO sequestration order is the final sequestration report issued by the OMB director 15 days after the end of the session.

Social Security benefits, federal deposit insurance guarantee commitments, and any direct spending or revenue legislation the President and Congress designate as an emergency requirement are excluded from PAYGO estimates.

While the PAYGO rules apply to direct spending and revenue legislation enacted through FY2002, the sequestration process enforcing the PAYGO rules continues until FY2006. If direct spending or revenue legislation enacted before the end of FY2002 causes a net increase in the deficit for any fiscal year through FY2006, a sequestration would occur for that year to eliminate the deficit increase.

Similar PAYGO rules are enforced procedurally in the Senate. A freestanding point of order under H.Con.Res. 68 (106th Congress), the FY2000 budget resolution, may be raised against any direct spending or revenue legislation that would violate the pay-as-you-go requirements by increasing or causing an on-budget deficit for the first fiscal year, the period of the first five fiscal years, or the following five fiscal years, covered by the most recently adopted budget resolution. However, this point of order is not self-enforcing like the sequestration process; a Senator must raise the point of order against any violating legislation. In addition, the Senate may waive this point of order by a three-fifths vote under procedures established by section 904 of the Congressional Budget Act, or by unanimous consent.